

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE G, L AND L-1**

**REPORT ON AUDIT**

**JUNE 30, 2006**

**County of San Bernardino Special Districts**  
**County Service Area No. 70**  
**Zone G, L and L-1**  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone G, L and L-1

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 26 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 70 - Zone G, L and L-1 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

*Rogers, Anderson, Molloy & Smith LLP*

September 15, 2006

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Statement of Net Assets**  
**June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 190,632	\$ 11,531,703	\$ 11,722,335
Accounts receivable, net	-	581,781	581,781
Interest receivable	1,722	101,087	102,809
Taxes receivable	16,621	62,044	78,665
Due from other governments	-	49,281	49,281
Total Current Assets	<u>208,975</u>	<u>12,325,896</u>	<u>12,534,871</u>
Noncurrent Assets:			
Capital assets:			
Land	-	436,593	436,593
Improvements to land	-	27,985,874	27,985,874
Structures and improvements	-	456,601	456,601
Vehicles	-	103,016	103,016
Equipment	-	21,194	21,194
Construction in progress	90,614	2,050,089	2,140,703
Accumulated depreciation	-	(12,066,222)	(12,066,222)
Total Noncurrent Assets	<u>90,614</u>	<u>18,987,145</u>	<u>19,077,759</u>
Total Assets	<u>299,589</u>	<u>31,313,041</u>	<u>31,612,630</u>
<b>LIABILITIES</b>			
Accounts payable	-	232,555	232,555
Accrued interest payable	-	71,107	71,107
Due to other governments	-	31,912	31,912
Long-term liabilities:			
Due within one year	-	70,000	70,000
Due in more than one year	-	4,226,515	4,226,515
Total Liabilities	<u>-</u>	<u>4,632,089</u>	<u>4,632,089</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	90,614	14,690,630	14,781,244
Unrestricted	<u>208,975</u>	<u>11,990,322</u>	<u>12,199,297</u>
Total Net Assets	<u>\$ 299,589</u>	<u>\$ 26,680,952</u>	<u>\$ 26,980,541</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>EXPENSES</b>			
Professional services	\$ -	\$ 250,778	\$ 250,778
Salaries and benefits	7,667	1,514,978	1,522,645
Services and supplies	26,598	828,761	855,359
Rents and leases	-	49,860	49,860
Utilities	-	828,795	828,795
Depreciation	-	796,367	796,367
Interest on debt	-	198,473	198,473
Other	-	163,759	163,759
Total Expenses	<u>34,265</u>	<u>4,631,771</u>	<u>4,666,036</u>
<b>PROGRAM REVENUES</b>			
Charges for services	<u>132,136</u>	<u>6,044,544</u>	<u>6,176,680</u>
Net Program Revenue	<u>97,871</u>	<u>1,412,773</u>	<u>1,510,644</u>
<b>GENERAL REVENUES</b>			
Investment earnings	4,222	300,925	305,147
Property taxes	23,799	646,800	670,599
Other taxes	725	55,636	56,361
State assistance	158	11,117	11,275
Penalties	-	24,480	24,480
Loss on sale of capital asset	-	(430)	(430)
Other	-	233,569	233,569
Total General Revenues	<u>28,904</u>	<u>1,272,097</u>	<u>1,301,001</u>
Change in Net Assets	126,775	2,684,870	2,811,645
Net Assets - beginning	<u>172,814</u>	<u>23,996,082</u>	<u>24,168,896</u>
Net Assets - ending	<u>\$ 299,589</u>	<u>\$ 26,680,952</u>	<u>\$ 26,980,541</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Balance Sheet  
Governmental Funds  
June 30, 2006**

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUND	Total Governmental Funds
	County-Wide Improvement (SLG)	Road Paving (CPH)	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 115,290	\$ 75,342	\$ 190,632
Interest receivable	824	898	1,722
Taxes receivable	16,621	-	16,621
 Total Assets	 <u>\$ 132,735</u>	 <u>\$ 76,240</u>	 <u>\$ 208,975</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>132,735</u>	<u>76,240</u>	<u>208,975</u>
 Total Fund Balances	 <u>132,735</u>	 <u>76,240</u>	 <u>208,975</u>
 Total Liabilities and Fund Balances	 <u>\$ 132,735</u>	 <u>\$ 76,240</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Net Assets of Governmental Activities

90,614

\$ 299,589

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUND	
	County-Wide Improvement (SLG)	Road Paving (CPH)	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 23,799	\$ -	\$ 23,799
Special assessments	132,136	-	132,136
Other taxes	725	-	725
State assistance	158	-	158
Investment earnings	2,377	1,845	4,222
	<hr/>	<hr/>	<hr/>
Total Revenues	159,195	1,845	161,040
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES</b>			
Salaries and benefits	7,667	-	7,667
Services and supplies	26,598	-	26,598
Capital outlay:			
Improvements to land	-	74,891	74,891
	<hr/>	<hr/>	<hr/>
Total Expenditures	34,265	74,891	109,156
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under)			
Expenditures	124,930	(73,046)	51,884
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	147,982	147,982
Transfers out	(147,982)	-	(147,982)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(147,982)	147,982	-
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	(23,052)	74,936	51,884
	<hr/>	<hr/>	<hr/>
Fund Balances - beginning	155,787	1,304	157,091
	<hr/>	<hr/>	<hr/>
Fund Balances - ending	\$ 132,735	\$ 76,240	\$ 208,975
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	51,884
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$74,891) exceeded depreciation expense (\$-0-) in the current period.

74,891

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Change in Net Assets of Governmental Activities	\$	126,775
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2006**

	<u>Enterprise Fund</u> <u>Water Services</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 11,531,703
Accounts receivables, net	581,781
Interest receivable	101,087
Taxes receivable	62,044
Due from other governments	49,281
Total Current Assets	<u>12,325,896</u>
Noncurrent Assets:	
Capital assets:	
Land	436,593
Improvements to land	27,985,874
Structures and improvements	456,601
Vehicles	103,016
Equipment	21,194
Construction in progress	2,050,089
Accumulated depreciation	(12,066,222)
Total Noncurrent Assets	<u>18,987,145</u>
Total Assets	<u>31,313,041</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	232,555
Accrued interest payable	71,107
Matured bonds payable	5,000
Bonds payable	65,000
Due to other governments	31,912
Total Current Liabilities	<u>405,574</u>
Noncurrent Liabilities:	
Loan payable	3,286,515
Bonds payable	940,000
Total Noncurrent Liabilities	<u>4,226,515</u>
Total Liabilities	<u>4,632,089</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	14,690,630
Unrestricted	<u>11,990,322</u>
Total Net Assets	<u>\$ 26,680,952</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

	Enterprise Fund Water Services
<b>OPERATING REVENUES</b>	
Water sales	\$ 3,221,067
Connection fees	2,155,670
Other services	302,119
Total Operating Revenues	<u>5,678,856</u>
<b>OPERATING EXPENSES</b>	
Professional services	250,778
Salaries and benefits	1,514,978
Services and supplies	828,761
Rents and leases	49,860
Utilities	828,795
Depreciation	796,367
Other	163,759
Total Operating Expenses	<u>4,433,298</u>
Operating Income	<u>1,245,558</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	300,925
Interest expense	(198,473)
Property taxes	646,800
Special assessments	365,688
Other taxes	55,636
State assistance	11,117
Penalties	24,480
Other	233,569
Loss on sale of capital asset	(430)
Total Nonoperating Revenues (Expenses)	<u>1,439,312</u>
Change in Net Assets	2,684,870
<b>Net Assets - beginning</b>	<u>23,996,082</u>
<b>Net Assets - ending</b>	<u><u>\$ 26,680,952</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006**

	<u>Enterprise Fund</u> <u>Water Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 5,390,408
Payments to suppliers	(1,932,401)
Payments to employees	(1,514,978)
	<hr/>
Net Cash Provided by Operating Activities	1,943,029
	<hr/>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property taxes	657,702
Special assessments	365,688
State assistance	11,117
Other taxes	55,636
Penalties	24,480
Other nonoperating revenue	233,569
	<hr/>
Net Cash Provided By Noncapital Financing Activities	1,348,192
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on bonds	(65,000)
Interest paid on bonds	(187,009)
Proceeds from long-term debt	729,198
Acquisition of capital assets	(1,024,929)
	<hr/>
Net Cash (Used For) Capital and Related Financing Activities	(547,740)
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	250,557
Loss on sale of capital asset	(430)
	<hr/>
Net Cash Provided By Investing Activities	250,127
	<hr/>
Net Increase in Cash and Cash Equivalents	2,993,608
	<hr/>
Cash and Cash Equivalents - beginning of the year	8,538,095
	<hr/>
Cash and Cash Equivalents - end of the year	<u>\$ 11,531,703</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006**

	<u>Enterprise Fund</u> <u>Water Services</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 1,245,558
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	796,367
Change in assets and liabilities:	
Decrease in accounts receivable, net	(288,448)
Decrease in accounts payable	<u>189,552</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,943,029</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2006**

**ASSETS**

Cash and cash equivalents	\$ 630
	<hr/>
Total Assets	\$ 630
	<hr/> <hr/>

**LIABILITIES**

Due to other bondholders	\$ 630
	<hr/>
Total Liabilities	\$ 630
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone G, L and L-1 were established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. The CSA No. 70 Zone G, Oak Springs (enterprise fund), is situated three miles north of Wrightwood. It serves 130 properties and maintains 2 wells, 1 booster station and reservoir storage of 518,000 gallons. The CSA No. 70 Zone G, Wrightwood (governmental fund), consists of five miles of unimproved roads. The CSA No. 70 Improvement Zone L, Pinon Hills, provides water service to 5,559 properties located five miles northeast of Wrightwood. It maintains 13 wells, 25 booster stations, 38 water storage reservoirs and approximately 330 miles of water pipelines.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone G, L and L-1 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

**Government-wide and fund financial statements**

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "County-Wide Improvement" accounts the activities of the government's efforts to maintain and remove snow from five miles of unimproved roads.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Water Services" accounts for the activities of the government's water services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2006 for the CSA is net of an allowance for doubtful accounts of \$143,240.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding, if any, at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 3: ACCOUNTS RECEIVABLE**

At June 30, 2006, the accounts receivable were composed of the following:

	<u>Enterprise Fund Water Services</u>
Accounts receivable	\$ 725,021
Less: allowance for uncollectible	<u>(143,240)</u>
Total accounts receivable, net	<u><u>\$ 581,781</u></u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 436,593	\$ -	\$ -	\$ 436,593
Construction in progress	1,025,160	1,024,929	-	2,050,089
Total capital assets, not being depreciated	<u>1,461,753</u>	<u>1,024,929</u>	<u>-</u>	<u>2,486,682</u>
Capital assets, being depreciated:				
Improvements to land	27,985,874	-	-	27,985,874
Structures and improvements	456,601	-	-	456,601
Vehicles	118,390	-	(15,374)	103,016
Equipment	21,194	-	-	21,194
Total capital assets, being depreciated	<u>28,582,059</u>	<u>-</u>	<u>(15,374)</u>	<u>28,566,685</u>
Less accumulated depreciation for:				
Improvements to land	(11,010,739)	(780,696)	-	(11,791,435)
Structures and improvements	(154,923)	(14,258)	-	(169,181)
Vehicles	(118,390)	-	15,374	(103,016)
Equipment	(1,177)	(1,413)	-	(2,590)
Total accumulated depreciation	<u>(11,285,229)</u>	<u>(796,367)</u>	<u>15,374</u>	<u>(12,066,222)</u>
Total capital assets, being depreciated, net	<u>17,296,830</u>	<u>(796,367)</u>	<u>-</u>	<u>16,500,463</u>
Business-type activities capital assets, net	<u><u>\$ 18,758,583</u></u>	<u><u>\$ 228,562</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 18,987,145</u></u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

**NOTE 4: CAPITAL ASSETS (continued)**

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in Progress	\$ 15,723	\$ 74,891	\$ -	\$ 90,614
 Governmental activities capital assets, net	 \$ 15,723	 \$ 74,891	 \$ -	 \$ 90,614

**NOTE 5: REFUNDING OF 1915 ACT BONDS**

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the Assessment Bond) under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 amounting to \$9,575,000 were refunded. The Assessment Bond is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 are subareas. Exhibit "I" shows the cash and investments of the Agency funds including Assessment Districts #81-1, #82-4, #82-6, #84-2, #84-4 and #87-3 which represent reserve funds of the Assessment District County Service Area No. 70 Zone G, L and L-1 at June 30, 2006.

The County has no obligation to advance funds to pay debt service on the Assessment Bond in the event collections are insufficient. However, the County may, at its option and in its sole discretion, elect to advance available surplus funds of the County in the amount of any delinquent payments to pay debt service on the Assessment Bond.

**NOTE 6: LONG-TERM DEBT**

**General obligation bond - matured**

In 1974, the Board of Supervisors approved the issuance of general obligation bonds to finance construction of a water facility. Bonds were issued under the authority provided under the County Service Area Law of the California Government Code. The matured bonds payable amounts to \$5,000 at June 30, 2006.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

NOTE 6: LONG-TERM DEBT (continued)

**General obligation bonds - outstanding**

County Service Area No. 70, Zone L, has three series of outstanding general obligation bonds issued to finance water distribution projects in the Pinon Hills area. A summary of bonds payable is as follows:

	Interest Rates (%)	Date of Issue	Date of Maturity	Amount of Original Issue	Outstanding as of June 30, 2006
Series A	5.00	3-1-1978	3-1-2018	\$ 1,708,000	\$ 885,000
Series B	5.00	3-1-1978	3-1-2018	275,000	120,000
				<u>\$ 1,983,000</u>	<u>\$ 1,005,000</u>
Current Portion					\$ 65,000
Long-Term Portion					940,000
					<u>\$ 1,005,000</u>

**Bonds payable**

The following is a schedule of debt service requirements to maturity as of June 30, 2006 for the District's bonds payable:

Year Ending June 30,	Series A	Series B	Total
2007	\$ 99,250	\$ 16,000	\$ 115,250
2008	101,500	15,500	117,000
2009	98,500	15,000	113,500
2010	100,500	14,500	115,000
2011	102,250	14,000	116,250
2012 - 2016	496,500	62,500	559,000
2017 - 2018	<u>199,000</u>	<u>21,500</u>	<u>220,500</u>
Total Payments	1,197,500	159,000	1,356,500
Less: Interest	<u>(312,500)</u>	<u>(39,000)</u>	<u>(351,500)</u>
Total Principal	<u>\$ 885,000</u>	<u>\$ 120,000</u>	<u>\$ 1,005,000</u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

NOTE 6: LONG-TERM DEBT (continued)

**Loan payable**

The CSA 70 Zone L entered into an Enterprise Fund Installment Sale Agreement (the Agreement) dated December 17, 2002 with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements known as the County Service Area 70 - Water Tank Project. According to the Agreement, the CIEDB will issue a total amount of \$5,001,000 in Infrastructure State Revolving Fund Program Revenue Bonds (the Bonds) to the CSA on a reimbursement basis. The CSA has agreed to make installment payments to the CIEDB on the Bond secured by a pledge of a first lien on all the pledged net system revenue and all amounts in the CSA. The term of the agreement is thirty years from December 17, 2002 at an interest rate of 3.50%. Total amounts reimbursed by the CIEDB from inception to June 30, 2006 was \$3,581,759 and the principal amount paid by the CSA on the Bond was \$295,244. The loan payable balance at June 30, 2006 is \$3,286,515.

**Change in long-term liabilities**

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Series A	\$ 940,000	\$ -	\$ (55,000)	\$ 885,000	\$ 55,000
Series B	130,000	-	(10,000)	120,000	10,000
Total Bond Payable	<u>\$ 1,070,000</u>	<u>\$ -</u>	<u>\$ (65,000)</u>	<u>\$ 1,005,000</u>	<u>\$ 65,000</u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

**NOTE 7: RETIREMENT PLAN**

**Plan description**

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**Fiduciary responsibility**

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

**Funding policy**

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 7: RETIREMENT PLAN (continued)**

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	<u>172,563</u>
Annual Contributions Made	<u>166,614</u>
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	844,882
Pension Assets, End of Year	<u><u>\$ 838,933</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Contributions Made (in thousands)</b>		<b>Percentage Contributed</b>
	<b>SBCERA</b>	<b>County</b>	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

**NOTE 8: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 9: RISK MANAGEMENT**

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone G, L and L-1  
Notes to Financial Statements  
June 30, 2006**

**NOTE 9: RISK MANAGEMENT (continued)**

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

**NOTE 10: TRANSFERS IN/OUT**

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the CSA made the following interfund transfers in and out:

	Transfers in:
	Road Paving
	(CPH)
	<hr/>
<u>Transfers out:</u>	
County-Wide Improvement (SLG)	<u>\$ 147,982</u>

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone G, L and L-1**  
**Budgetary Comparison Schedule - Special Revenue Fund**  
**For the Year Ended June 30, 2006**

	Special Revenue Fund			
	County-Wide Improvement (SLG)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 8,416	\$ 8,416	\$ 23,799	\$ 15,383
Special assessments	120,000	120,000	132,136	12,136
Other taxes	-	-	725	725
State assistance	-	-	158	158
Investment earnings	1,000	1,000	2,377	1,377
Total Revenues	129,416	129,416	159,195	29,779
EXPENDITURES				
Salaries and benefits	7,667	7,667	7,667	-
Services and supplies	33,157	33,157	26,598	6,559
Reserves and contingencies	96,491	96,491	-	96,491
Total Expenditures	137,315	137,315	34,265	103,050
Excess of Revenues Over (Under) Expenditures	(7,899)	(7,899)	124,930	132,829
OTHER FINANCING SOURCES (USES)				
Transfers out	(147,982)	(147,982)	(147,982)	-
Total Other Financing Sources (Uses)	(147,982)	(147,982)	(147,982)	-
Net Change in Fund Balance	\$ (155,881)	\$ (155,881)	(23,052)	\$ 132,829
Fund Balance - beginning			155,787	
Fund Balance - ending			\$ 132,735	